Manitoba

Annual Report 1985

The Public Utilities Board

For the year ending December 31, 1985

To the Honourable Roland Penner, Q.C.,
Minister of Consumer and Corporate Affairs,
104 Legislative Building,
Winnipeg, Manitoba.
R3C 0V8

Sir:

Section 109(1) of The Public Utilities Board Act (CAP. P280, R.S.M. 1970) directs that the Manitoba Public Utilities Board

> "...shall, on or before the first day of March in each year, transmit to the Minister a report for the year ending the thirty-first day of December in the last preceding year..."

including therein summaries and statistics pertaining to all findings and activities of the Board.

Section 109(2) of The Public Utilities Board Act (CAP. P280, R.S.M. 1970) directs that the Report of the Board thus transmitted to the Minister

> "...shall be submitted to the Legislature if it then is in session and, if not, at the next session thereof."

Pursuant to the provisions of Section 109(1) of the Act, I am pleased to transmit to you as Minister under the Act, the Twenty-Sixth Annual Report of the Manitoba Public Utilities Board, pertaining to the year ending on the thirty-first day of December, 1985, on behalf of those Members named below who comprised the Board for the period covered by this Report.

The Board has now discharged its responsibilities in all particulars pursuant to Section 109(1) of The Public Utilities Board Act.

Respectfully transmitted, this 28th day of February, 1986.

Sincerely,

Murray Donnelly,
Chairman.

Oscar Tonn - Vice-Chairman

Rudy Schilling - Member

Susan Proven - Member

G.O. Barron - Secretary

D. de Graff - Associate Secretary

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RESPONSIBILITIES

The Public Utilities Board is an independent quasi-judicial body operating under the authority of the Manitoba Legislature.

The Board is responsible for the regulation of public utilities as defined under The Public Utilities Board Act in all matters and in such manner as set out in that legislation. Other enactments which assign regulatory or adjudicative responsiblities to the Board are:

The Greater Winnipeg Gas Distribution Act
The Gas Pipe Line Act
The Gas Storage and Allocation Act
The Prearranged Funeral Services Act
The Cemeteries Act
The Municipal Act (Local Utilities)
The Manitoba Water Services Board Act (Appeals)
The Highways Protection Act (Appeals)
The Manitoba Telephone Act
The Manitoba Hydro Act (Appeals, Reference)

The Board is also charged by Orders-in-Council relating to a Canada-Manitoba Agreement to adjudicate certain disputes arising between the Manitoba Telephone System and licensed Cable Television Operators.

BOARD PERSONNEL

At the date of this Report, the panel of the Board consists of four Members assisted by a Secretariat, as noted below:

Chairman of the Board	Mr. M. Donnelly
Vice-Chairman	Mr. O. Tonn
Member	Mr. R. Schilling
Member	Mrs. S. Proven
Executive Secretary	Mr. G. O. Barron
Associate Secretary	Mr. D. C. de Graff

Professional, technical and expert assistance is regularly available to the Board, as authorized by statute and/or by Order-in-Council in respect of the appropriate statutory provisions in The Public Utilities Board Act. Such legal, engineering, accounting and other professional or technical staff support at service to the Board is exclusively and wholly by statute under Board direction in respect of that service. These resources are employed on an "as needed" basis and paid fees set by Order-in-Council on an "as utilized" basis, plus expenses, with such disbursements being recoverable from the entities regulated or applying to the Board for service or adjudication. The Board is empowered by statute (The Public Utilities Board Act) to secure such other assistance as it deems appropriate in the process of adjudication, with the related disbursements, if any, being charged directly to the parties as the Board may determine.

BOARD MEETINGS AND HEARINGS

A total of 54 Board meetings and public hearings were held in 1985:

Board Meetings	27
Public Hearings	27

ORDERS ISSUED

During the year ending December 31, 1985, 170 Orders were issued, as follows:

Public Utilities	157
Highways Protection Act	13

Note: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's offices upon request.

Public Utilities Orders

Public Utilities Board Act	4
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NATURAL GAS DISTRIBUTION UTILITIES

GENERAL

Reduction to Zero of Canadian Ownership Special Charge

In 1985 the natural gas utilities under the Board's jurisdiction applied for a reduction in rates pursuant to the provisions of Western Accord and the subsequent Federal Budget delivered on May 23, 1985, whereby the Canadian Ownership Special Charge on natural gas was reduced to zero effective June 1, 1985.

This decrease in rates for the Greater Winnipeg Gas Company and ICG Utilities (Manitoba) Ltd. amounted to 14¢ per gigajoule or approximately 14.7¢ per Mcf on an annual basis.

Agreement on Natural Gas Markets and Prices

In the 1984 report of The Public Utilities Board, the Board noted that:

> "Although the Agreement between the Federal Government and the Province of Alberta provides for the Alberta Border Price for natural gas to increase on February 1 and August 1 of each year until the year 1986, currently discussions at the Federal level are being carried out with regard to the future of this Agreement."

In a Communique of Energy, Mines and Resources Canada dated October 31, 1985, the Federal Government announced that a new agreement on natural gas markets and prices had been reached between the Federal Government and the gas-producing provinces of Alberta, British Columbia and Saskatchewan. This agreement titled "Agreement

on Natural Gas Markets and Prices", which took effect November 1, 1985, provided for, amongst other things, the following:

> "-direct sales at prices and terms freely negotiated between producers and distributors or large industrial users, provided transportation service is made available by consumer provinces' regulatory bodies;
> -competitive marketing programs under which distributors will be permitted to offer discounts to meet competition;
> -export floor prices based on regional price tests rather than a single Toronto price;
> -an NEB review of TCPL's services in light of the new pricing system to ensure equitable access to this system;
> -removal of volume restrictions on short-term natural gas exports;
> -a comprehensive review of the role and operations of interprovincial pipelines."
>
> and it stated that:
>
> "The agreement anticipates that consuming provinces through their regulatory bodies, will ensure provisions of the agreement flow through to customers so that they can take advantage of opportunities for market pricing."

In effect the Alberta Border Price for natural gas leaving the Province of Alberta has been fixed at $2.79 per gigajoule or $2.90 per Mcf during the transition period from November 1, 1985, to November 1, 1986, following which the rates for natural gas will be market sensitive. As the Manitoba gas utilities, like the utilities in other provinces, have entered into long term supply contracts with TransCanada PipeLines, it is unlikely that the local gas distributors will be able to take advantage of the market-pricing regime for their current natural gas requirements other than for new incremental volumes.

However, as the gas sales contracts entered into by the

Manitoba gas utilities with its large volume customers are for shorter periods, it may be possible for these customers to purchase their supply requirements directly from the producer or under buy-sell arrangements with their gas distributor. Furthermore, under a Competitive Marketing Program, a user may be able to obtain a lower cost of gas from the producers if the user can successfully demonstrate that without a lower price for natural gas the business will cease operations or will use an alternate fuel. Such price reductions must be negotiated between the producer, TransCanada PipeLines and the Manitoba utility.

There has been a concern raised that should a user arrange a direct purchase with a producer, then the gas distributor should be able to renegotiate its contract with TransCanada PipeLines to take into account a corresponding reduction in its gas requirements. Buy-sell arrangements through the gas distributor would not present the same problem as the volumes negotiated with TransCanada PipeLines by the distributor are not being displaced. This issue is now before the National Energy Board and it is anticipated the matter of renegotiated contracts between TransCanada PipeLines and the gas distributors will be discussed.

Future Test Year

The Board on June 10 and 11, 1985 and on August 14, 1985, conducted a "generic" hearing in Winnipeg to obtain the opinion of interested parties on the merits (or otherwise) of moving to a "future test year" for the determination of rate base in gas utility applications. Typically, applications have been based on an "historic test year" with adjustments for particular items of "known and measurable expense" that occur after the test year.

While the generic hearing was, technically, the first of its kind, it was not the first time that the question of a future test year had been put before the Board for its consideration. In 1979, Greater Winnipeg Gas Company applied for approval of rate base and rate of return on the basis of a future test year. This application was not approved by the Board.

After considering all the evidence filed at the "generic" hearing, the Board in Order No. 131/85 dated September 5, 1985, concluded, that the case for changing to a future test year was not as strong as the case for retaining the historic test year with inclusion of known and measurable expenses.

Guidelines For The Awarding Of Costs To Intervenors

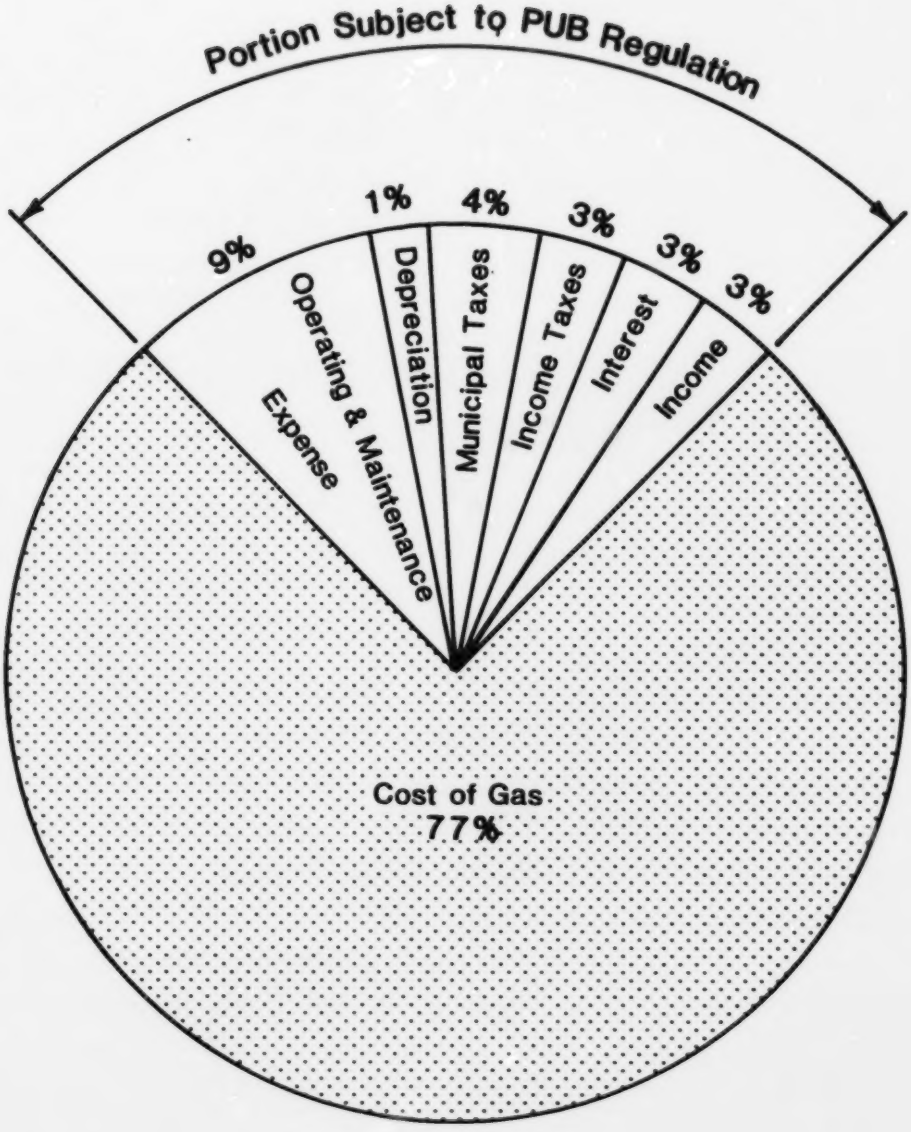
The Board, following one year's experience with the guidelines for awarding costs to intervenors, issued Order No. 56/85 dated March 20, 1985, amending its original guidelines as set out in Order No. 53/84. The amendments were for clarification only and did not significantly affect the procedures previously adopted by the Board in awarding costs.

GREATER WINNIPEG GAS COMPANY

On June 14, 1985, the Board issued Order No. 97/85 approving the Company's application for an interim ex parte order approving a decrease in rates to be charged by the Company for the sale of natural gas to its customers for all gas consumed on and after June 1, 1985 as a result of a reduction to zero of the Canadian Ownership Special Charge. The effect of this rate reduction lowered the cost of gas to the Company by 14¢ per gigajoule, or approximately 15.2¢ per Mcf, on an annual basis. This reduction in cost of gas resulted in a 3% decrease in the average residential customer's annual bill.

As a result of an application for an award of costs made by the Manitoba Society of Seniors and the Consumers' Association of Canada (Manitoba) for their intervention in a Greater Winnipeg Gas Company rate base/rate of return hearing, the Board issued Order No. 119/84 allowing partial costs. The Manitoba Society of Seniors and the Consumers' Association of Canada (Manitoba) applied to the Board for a variation of its Order to allow for full recovery of its costs. This was heard by the Board on January 17, 1985 and subsequently dismissed in Order No. 25/85 dated February 26, 1985. The Manitoba Society of Seniors and the Consumers' Association of Canada (Manitoba) applied for costs amounting to $17,410.43 and the Board allowed $9,285.43.

The Company did not apply for an increase in rates in 1985 as a result of changes in its rate base for 1984. However, the Board reviewed the operating results of the Company for 1984 and determined that the Company earned on a weather normalized basis an overall rate of return of 12.58% which is slightly less than the 12.65% currently allowed by the Board. The Company earned a return on equity of 15.4%-15.7% which is higher than the allowed return on equity of 14.25%. This matter is currently under the Board's review.

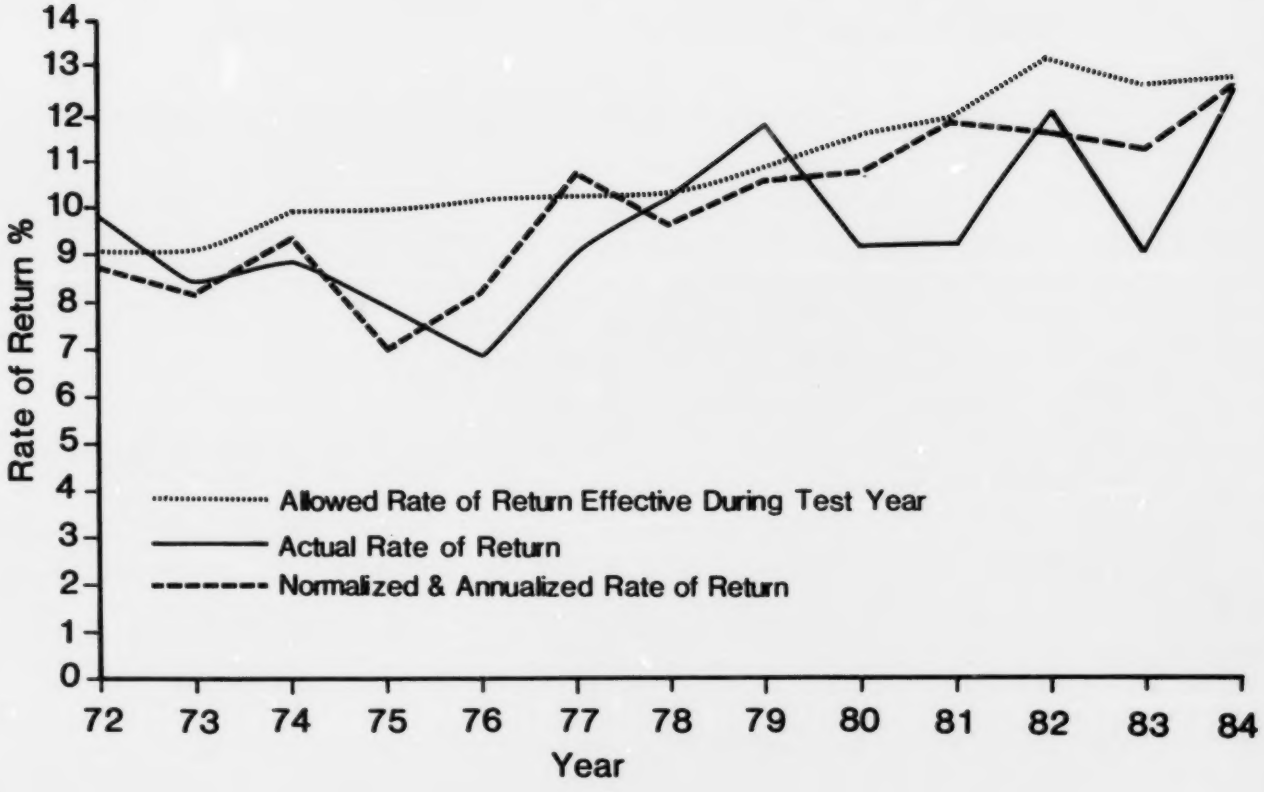


1984

Cost of Gas Includes Trans Canada Pipelines Limited Transportation Tolls, Federal and Alberta Government Taxes, Royalties, and Gathering System and Producer Costs.

GREATER WINNIPEG GAS COMPANY

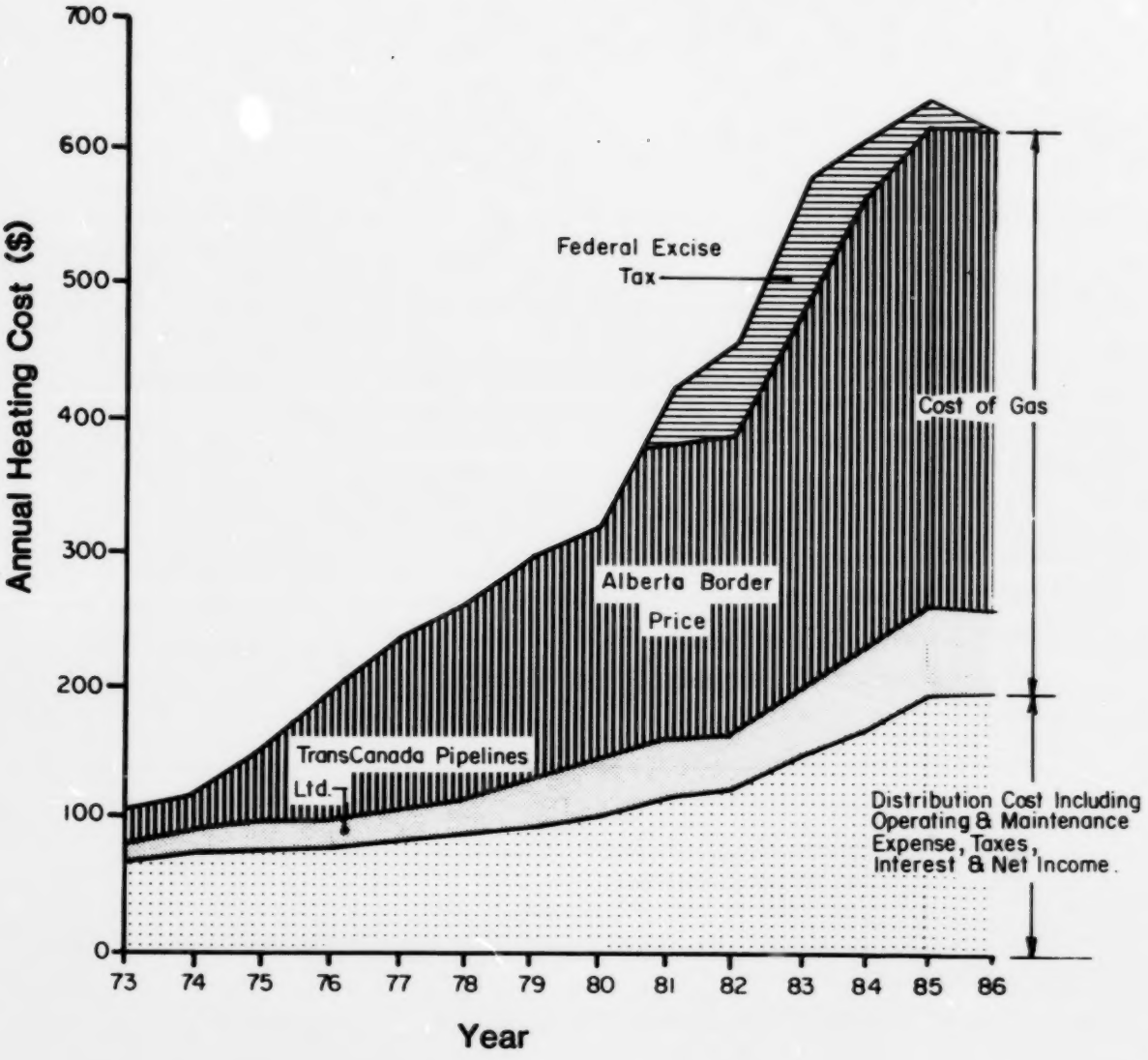
Distribution of Gas Utility Revenue



Notes. Rate of Return is the Return Earned or Allowed to be Earned by a Utility Calculated as a Percentage of its Rate Base i.e. Investment in Property, Plant & Equipment.

GREATER WINNIPEG GAS COMPANY

Rate of Return on Rate Base



Based on Usage of 119 Mcf/Year Which Represents Only Space Heating. Hot Water Heating is Not Included. Due to Conservation effects, Space Heating Consumption Has Declined From 142 Mcf/Yr. in 1975. At January 1, 1986 Rates, 142 Mcf Would Cost $729.

GREATER WINNIPEG GAS COMPANY

Annual Heating Cost of an Average Residential Customer

ICG UTILITIES (MANITOBA) LTD.

As noted in the Board's 1984 annual report, the companies previously known as Inter-City Gas Utilities Ltd. and Plains-Western Gas (Manitoba) Ltd., merged operations in 1984 and became known as ICG Utilities (Manitoba) Ltd. The merged Company maintained three (3) rate divisions known as ICGUL Division, Brandon Division and Carberry/Southeast Division.

On June 7 and 14, 1985, the Board issued Order Nos. 91/85 and 96/85 respectively approving on an interim ex parte basis a reduction on the rates charged by the Company to all its customer classes of 14¢ per gigajoule or approximately 14.7¢ per Mcf, on an annual basis. This rate reduction reflected a decrease in the Company's cost of gas as a result of a reduction to zero of the Canadian Ownership Special Charge on natural gas. The average residential bill decreased approximately 3.5% as a result of the rate reduction.

On June 24 - 28, 1985, inclusive and continuing on August 13 and 14, 1985, the Board conducted public hearings in the City of Brandon and the City of Winnipeg respectively to consider the Company's rate base/rate of return and rates application based on the 1984 test year.

In a letter dated April 25, 1985, the Company applied to the Board for an Interim Ex Parte Order approving interim rate relief effective May 1, 1985 to correct its revenue deficiency, on the basis that an adjustment would be made later pending a final decision of the Board on the rate case. In a letter dated May 6, 1985, the Board declined this request. The Company refiled its application of interim relief on May 16, 1985, and it was heard by the Board in conjunction with the Company's rate base/rate of return and rates

hearing. Such rates, if approved by the Board were to be effective July 1, 1985. After hearing the application the Board, in Order No. 101/85 dated July 4, 1985, dismissed the Company's application for interim rate relief as financial need could not be demonstrated.

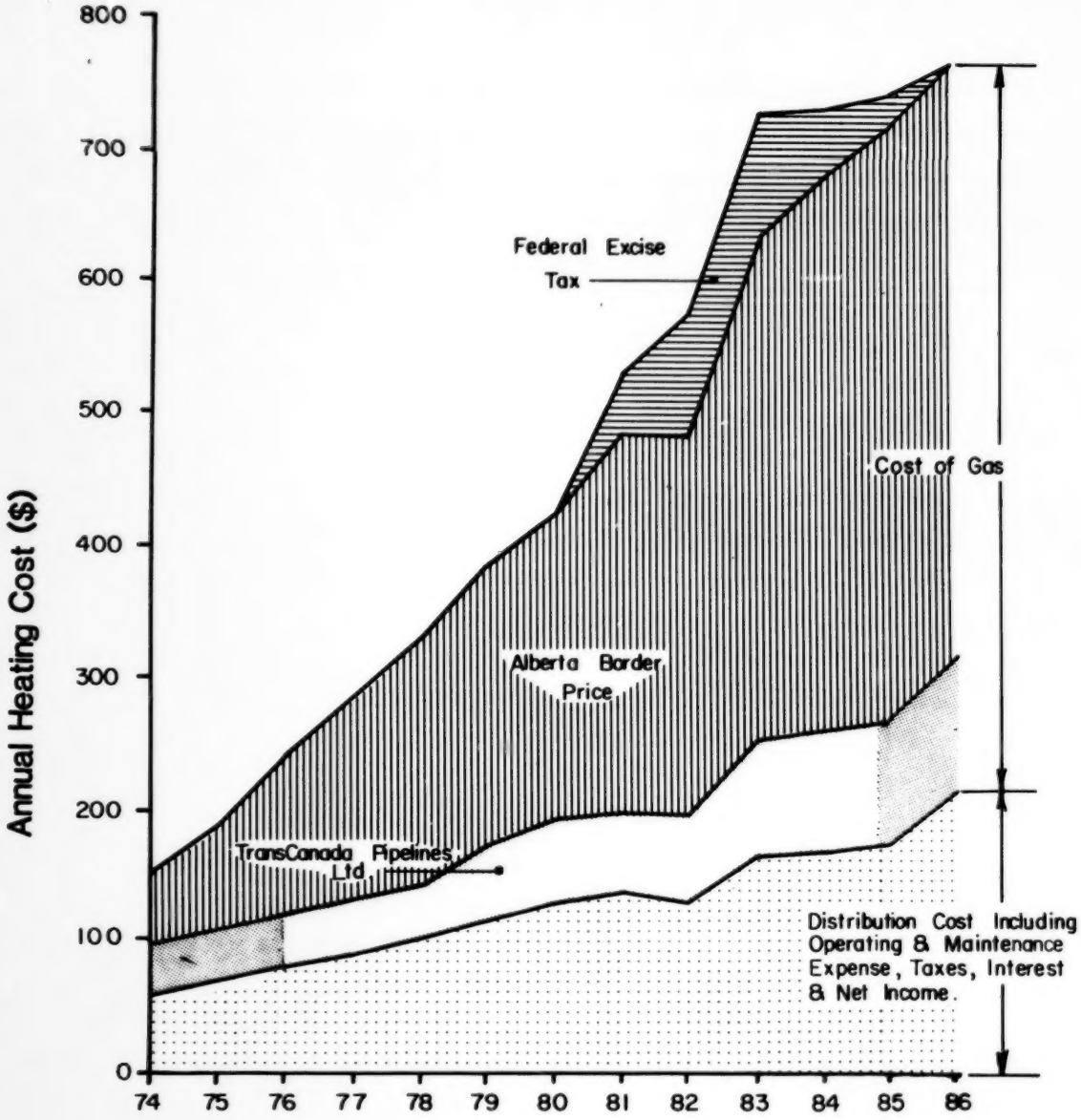
The Company in its rate base/rate of return and rates application applied for, amongst other things, a rate base based on a forward looking test year and an overall rate of return of 14.04% which would result in a rate of return on equity of 15.75%.

The rate base of the Company approved by the Board in Order No. 132/85 dated September 13, 1985, was the first rate base before the Board since the merger and it amounted to $19,298,633. The total revenue requirement allowed by the Board, unadjusted for the Canadian Ownership Special Charge elimination, amounted to $69,980,112, of which $59,081,987 or 84.4% is for the cost of gas alone.

In Order No. 133/85 dated September 19, 1985 the Board approved the Company's revenue requirement of $67,522,170 which excluded the Canadian Ownership Special Charge and approved the schedule of rates flowing from Order No. 132/85. The rates were effective on and after September 16, 1985. The increase in rates approved by the Board resulted in an increase of approximately 6.5% or $36.00 in the typical Brandon residential customer's annual bill which was a reduction from the 8.3% requested by the Company.

Pursuant to Board Order No. 56/85 the Board in Order No. 142/85 denied the application of The Department of National Defence for costs for their intervention in the Company's rate case in the amount of $25,500 as the Intervenor could not demonstrate financial need and in Order Nos. 144/85 and 152/85 awarded costs to

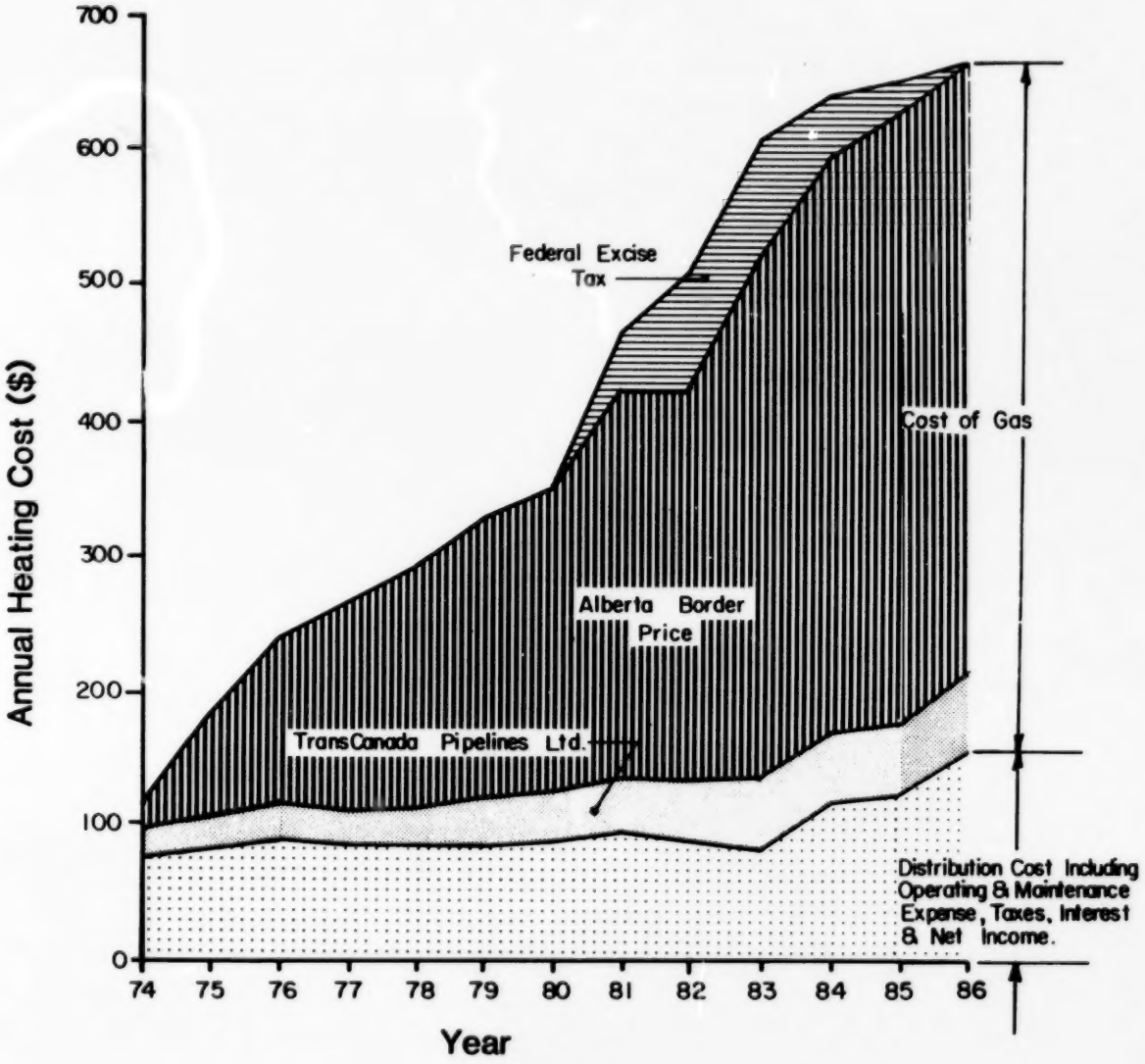
the Manitoba Society of Seniors and the Consumer's Association of Canada (Manitoba) totalling $7,158.29.



Based on Usage of 150 Mcf / Year.

ICG UTILITIES (MANITOBA) LTD.
ICGUL Division

Annual Heating Cost of an Average Residential Customer

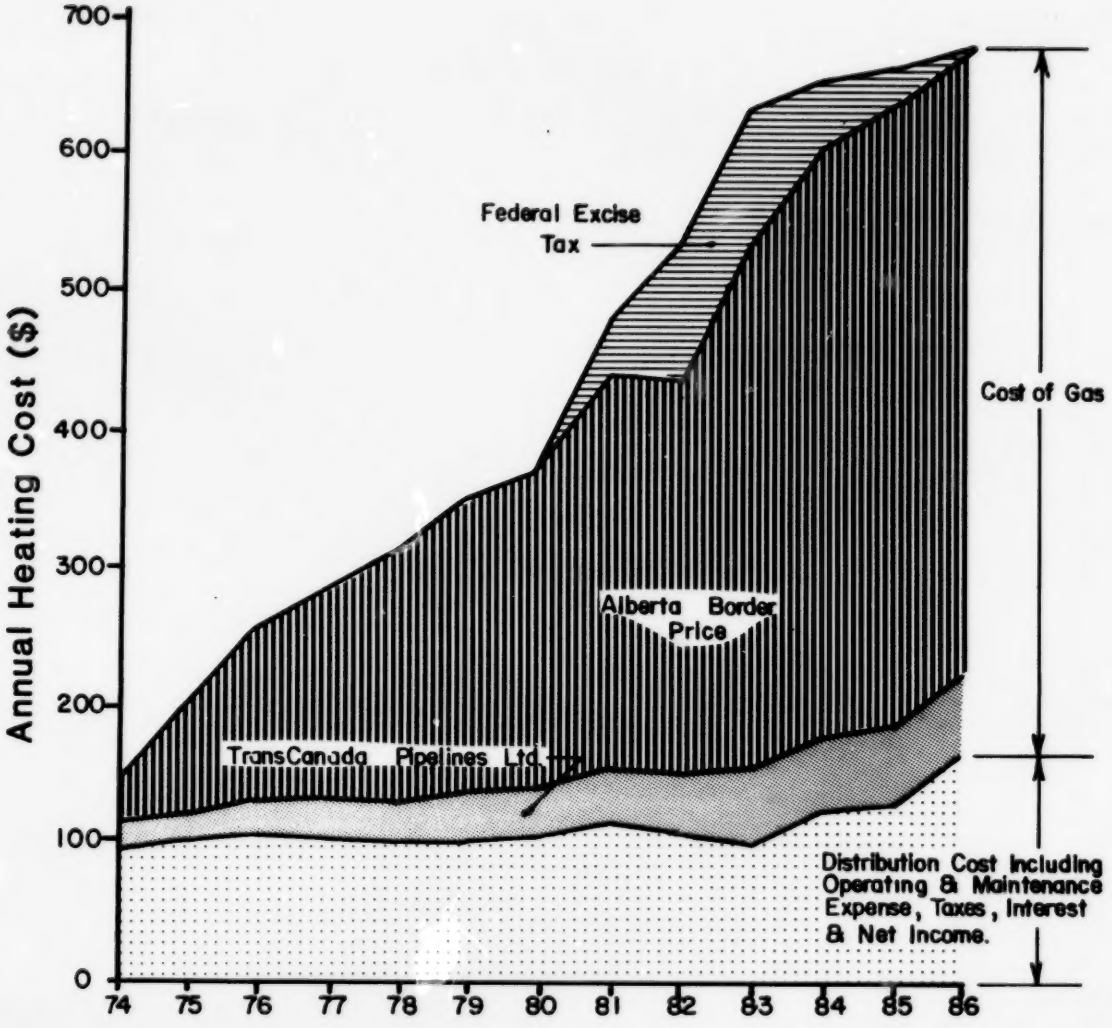


Based on Usage of 150 Mcf / Year.

ICG UTILITIES (MANITOBA) LTD.

BRANDON DIVISION

Annual Heating Cost of an Average Residential Customer



BASED ON USAGE OF 150 Mcf / YEAR

ICG UTILITIES (MANITOBA) LTD.

Carberry/South East Division

Annual Heating Cost of an Average Residential Customer

PROPANE GAS DISTRIBUTION UTILITY

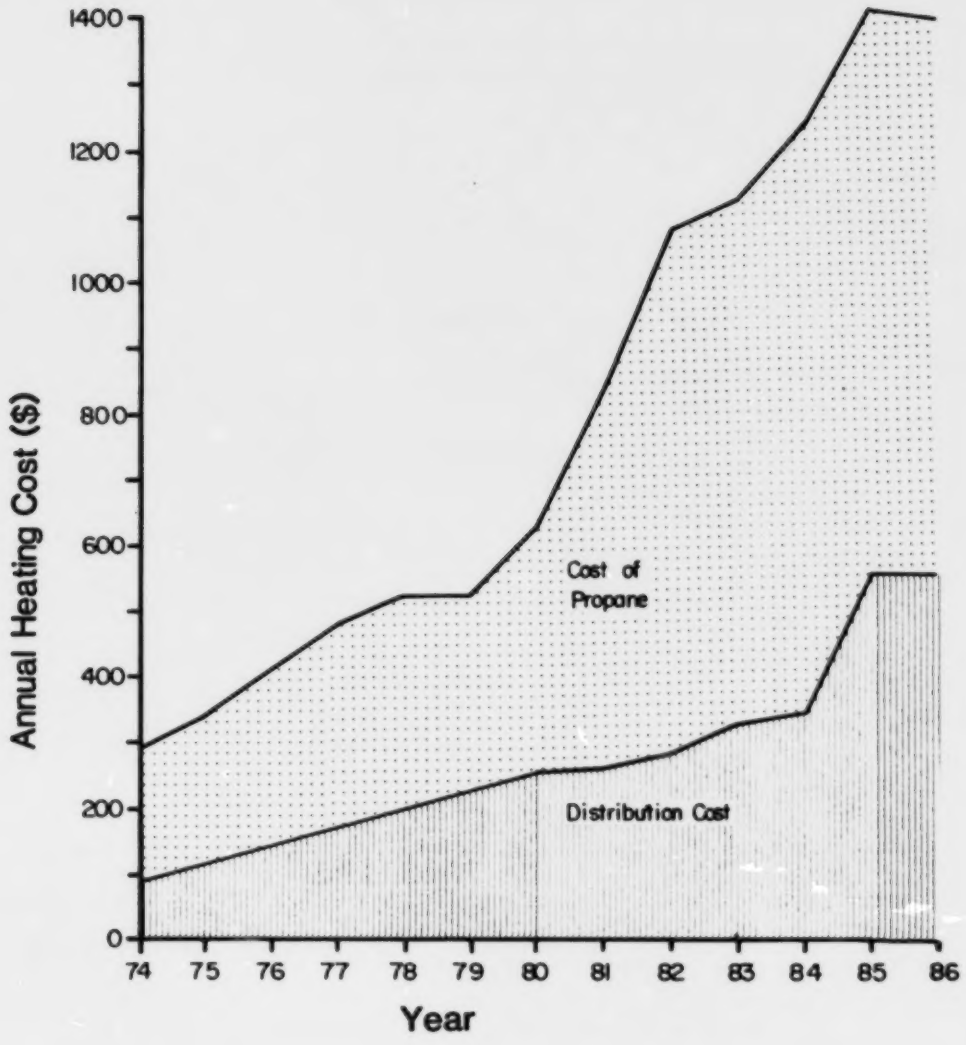
STEELGAS UTILITIES OF MANITOBA LTD.

On June 21, 1985, the Board issued Interim Ex Parte Order No. 99/85 approving a reduction in the Company's rates effective July 1, 1985, as a result of the reduction to zero of the Canadian Ownership Special Charge. The cost of propane (vapour) to the Company was decreased by 1.34¢ per cubic meter which resulted in the average residential customer's bill being reduced by approximately $17.00 per year.

The Company did not apply for a rate base determination based on the test year ending July 31, 1985. However, the Board did review the operating results of the Company for that test year and determined that the Company earned, on a weather normalized basis, a rate of return of 7.95% which is less than the 13.75% allowed by the Board.

Each year the Company tenders for its annual supply of propane. In 1985 the Company entered into a contract with Chevron Canada Resources Ltd. at a price for propane that would decrease the Company's annual cost of propane purchases by approximately $200,000. Taking this adjustment and the adjustment for the Canadian Ownership Special Charge into account together with anticipated increases in the Company's expenses, the Company forecasted that for the test year ending July 31, 1986, the Company would record a revenue deficiency of approximately $53,000. However, the Company is forecasting that it will earn on a weather normalized basis a rate of return of approximately

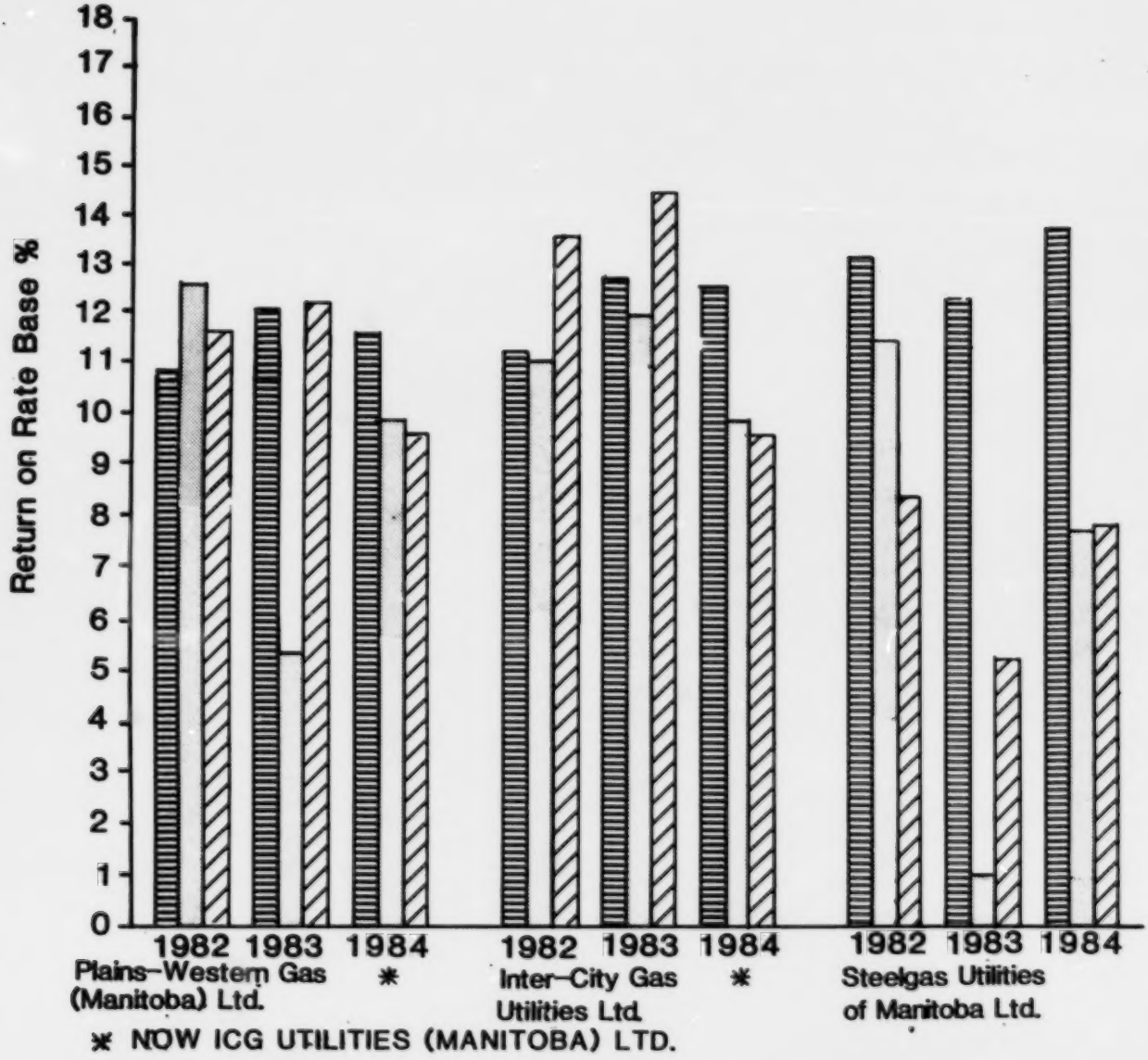
12.3% based on existing rates. The Board examined this information and noted that the forecasted rate of return remains lower than the allowed rate of return. Therefore, no adjustment in rates was deemed necessary.



Based on Usage of 5100 litres per year.

STEELGAS UTILITIES OF MANITOBA LTD.

Annual Heating Cost of an Average Residential Customer



* NOW ICG UTILITIES (MANITOBA) LTD.

Allowed Rate of Return Effective During Test Year

Actual Rate of Return

Normalized Rate of Return

Note: Rate of Return is the Return Earned or Allowed to be Earned by a Utility Calculated as a Percentage of its Rate Base i.e. Investment in Property, Plant & Equipment.

MANITOBA GAS UTILITY COMPANIES

(OTHER THAN GREATER WINNIPEG GAS COMPANY)

Rate of Return on Rate Base

THE MANITOBA TELEPHONE SYSTEM

During 1985 the Board issued 37 Orders relating to matters such as improvement of service, introduction or extension of market trials and specific adjustments to items in the Manitoba Telephone System's (the System) General Tariff.

On September 26, 1985 the Board convened a public hearing for the confirmation or otherwise of 24 Interim Ex Parte Orders enacted by the Board between April 18, 1984 and August 13, 1985. These Orders dealt with specific services that came before the Board from time to time. After hearing all the evidence, the Board issued Order No. 140/85 dated October 7, 1985 confirming the said Orders.

In a letter dated November 5, 1985 the System applied to the Board for an Order or Orders for the approval of the following:

(a) Proposed changes in rates for certain items in the General Tariff;

(b) Confirmation of Interim Ex Parte Orders issued by the Board between October 3 and December 31, 1985;

(c) A market trial of the "Local Gateway Service" which is a data communication service which included the existing service known as "Grassroots".

The System indicated that its application addressed, in part, changes to the General Tariff as follows:

1. A general rate increase of 3% to all primary exchange service rates. This would result in a monthly increase for regular individual residence customers

from 15 cents for Rate Group 1 to 25 cents for Rate Group 9. Enhanced individual residence service rates would increase monthly from 20 cents for Rate Group 1 to 30 cents for Rate Group 9. Individual business line rates would increase monthly 25 cents for Rate Group 1 to 60 cents for Rate Group 9.

2. A 3% increase in rates for private branch exchange service, Key equipment, Business Communications Systems and Centrex Services.
3. A rate increase for intra (within Manitoba) Message Toll Service of 1 cent per minute for all call classes from rate steps 1 to 12, inclusive.
4. Rate increases of approximately 3% for most other services such as foreign exchange, mobile, private line, Zone 1 800 Service and service charges.
5. Rate increase of 40 cents to all mileage bands for initial 60 minutes and an increase of 10 cents for each additional 15 minutes or portion thereof respectively for Residential Optional Toll Calling Plan for existing customers.

The Board conducted a pre-hearing conference on November 29, 1985 at which Intervenors were registered and a schedule for the orderly flow of information was developed. The hearing date was set for February 3, 4 and 5, 1986.

At the date of this writing the decision of the Board remained outstanding.

THE MUNICIPAL ACT

WATER AND SEWER UTILITIES

There were a total of 91 Board Orders issued by the Board respecting applications filed with the Board by local municipal authorities, as set out below:

(i) 39 applications pursuant to Section 563 of The Municipal Act which requested approval and authorization for method of recovery pertaining to the following: 32 utility operating deficits for the year ending December 31, 1984 and 6 anticipated revenue deficits for 1985. There was 1 additional application for approval to vary the method of recovery of a revenue deficit earlier approved by the Board. In respect of the aforesaid 39 applications, Orders were issued authorizing same.

(ii) 37 applications for revision, amendments or establishment of rates were processed and Orders were issued authorizing same. Board guidelines which have been prepared and distributed to local authorities were applied wherever possible to assist them with their rate design and to ensure that sufficient revenue would be provided to cover normally anticipated expenses plus an adequate contingency allowance. Applications

were handled by hearing or Returnable Date Notice. In all cases the municipalities and affected water and sewer customers were served appropriate notice.

(iii) 14 applications for establishment of utility reserve funds pursuant to Section 569 of The Municipal Act were processed and Orders issued to authorize the creation of the reserve funds.

(iv) 1 application by The Rural Municipality of Rhineland for the sale of the Gnadenthal Water Utility to the Gnadenthal Water Co-op was processed and an Order was issued authorizing same.

The Board authorized 27 requests by municipalities to make expenditures from their utility reserve funds established under Section 569 of The Municipal Act for miscellaneous purposes relating to the operations of the utilities.

The Board and its staff assisted applicant municipalities and others contemplating changes and seeking guidance in the preparation of their applications. Board staff met frequently with municipal representatives to ensure that applications were filed in the form prescribed by the Board, pursuant to statute. In most instances, these applications required the preparation of a rate study, and when necessary, public hearings were held in the applicant municipalities.

Note: The Board's general guidelines were introduced in 1977 to assist an applicant municipality in the preparation of an application and supporting rate study, for the approval of rate increases only, or for the establishment of utility rates.

THE HIGHWAYS PROTECTION ACT

Pursuant to Section 21 of The Highways Protection Act the Board issued 13 Orders respecting appeals of the decisions of The Highway Traffic Board. All of these applications dealt with structures or access driveways located within a controlled area adjacent to a highway which is designated by regulation of The Highway Traffic Board as a Limited Access Highway.

The Board Orders dealt with applications involving 6 access driveways, 3 access driveways and buildings within a controlled area, 2 buildings within a controlled area and 2 signs. Ten of the 13 appeals were dismissed and 3 were allowed.

A public hearing is held by the Board in response to each appeal application under The Highways Protection Act. In some instances hearings may be reconvened to permit further evidence to be presented to the Board and occasionally on-site inspections are required.

THE PREARRANGED FUNERAL SERVICES ACT

As administrator of The Prearranged Funeral Services Act, the Board is responsible for licensing companies selling prearranged funeral plans and for ensuring that the operations of these firms conform to statutory requirements.

In 1985, the Board issued 27 licences, 26 of which were renewals. The Board approved 1 application for an initial licence. Twenty-six applications for approval of revisions in fees for services, as well as 1 application for initial approval in fees and services were approved.

The Board continued to review and monitor the annual reports filed by the licensees and their trustees in respect of the prearranged funeral plans being sold and the contracted funds maintained in trust.

THE CEMETERIES ACT

During the year the Board issued renewal licences for the operation of 10 cemeteries, 7 columbariums, 3 mausoleums and 5 crematories. Forty-six licences to sell cemetery services were issued either to owners or to sales personnel. In addition, 7 applications, each for a revision in a schedule of fees for spaces, materials, and services were authorized and 1 application for an initial schedule of fees for spaces, materials, and services was authorized.

The Board continued to monitor the maintenance and "passing of accounts by a Judge of the Court of Queen's Bench" (formerly the Surrogate Court) in respect of perpetual care funds collected and deposited in trust funds with authorized trustees pursuant to The Cemeteries Act. During the year, passing of accounts was completed for 3 cemeteries.

REVENUE

Most costs incurred by the Board in carrying out its operations were substantially recoverable from the utilities and agencies under its jurisdiction or making application for its service. The 1985 revenue collected was as follows:

Public Utilities	$579,751.08
The Prearranged Funeral Services Act	675.00
The Cemeteries Act	5,714.50
The Highways Protection Act	250.00
	$586,390.58

This data covers actual receipts only for the period covered by this Report, ending December 31, 1985. Receipts after that date will be recorded for the subsequent year.